

ASSOCIATION REPORT ON EXAMINATION

OF THE

CENTENNIAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

EXAMINER

STATE

ZONE

LARRY LEVINE

NEW YORK

NORTHEASTERN

JOSEPH ARCHDEACON

MISSISSIPPI

SOUTHEASTERN



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

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Subcommittee, NAIC
2301 McGee Street, Suite 800
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2910 North 44th Street, Suite 210
Phoenix, Arizona 85018

Honorable Howard Mills
Superintendent of Insurance
State of New York
Albany, New York 12257

Commissioners:

In accordance with your several instructions, an Association Examination has been made as of December 31, 2003 into the financial condition and affairs of the Centennial Insurance Company and the following report is respectively submitted thereon.

REPORT ON EXAMINATION

OF THE

CENTENNIAL INSURANCE COMPANY

AS OF

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DATE OF REPORT

JULY 29, 2005

EXAMINER

LARRY LEVINE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

July 29, 2005

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22151 dated February 19, 2004 attached hereto, I have made an examination into the condition and affairs of Centennial Insurance Company as of December 31, 2003, and submit the following report thereon.

Wherever the designations "the Company" or "Centennial" appear herein without qualification, they should be understood to indicate Centennial Insurance Company. Whenever the designations "Atlantic Companies" or "Group" appear herein without qualification, they should be understood to include the Atlantic Specialty Insurance Company ("ASIC") and the Atlantic Mutual Insurance Company ("Atlantic Mutual") as well as the Centennial.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative office located at Three Giralda Farms, Madison, New Jersey 07940, its home office located at 140 Broadway, New York, New York and at the offices of its technology and customer service center located in Roanoke, Virginia.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the two-year period from January 1, 2002 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2003. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Market conduct activities
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Centennial Insurance Company was incorporated on September 5, 1941, under the laws of the State of New York to transact the business of fire and marine insurance. The Company was organized by Atlantic Mutual as a wholly-owned subsidiary.

On July 29, 1994, the Atlantic Companies Holding Company (“ACHC”), a non-insurance subsidiary of Atlantic Mutual, issued \$40,000,000 of senior subordinated debt secured by the capital stock of the Centennial. Proceeds in the amount \$39,600,000 from the debt issuance were contributed to Centennial in the form of a \$36,000,000 surplus note and \$3,600,000 of additional paid-in surplus. The surplus note was issued pursuant to Section 1307 of the New York Insurance Law and interest and note repayments require prior approval of the Superintendent of Insurance of New York. Centennial made surplus note repayments to ACHC of \$4,000,000 in 1997 and \$4,000,000 in 1998. On January 26, 1998, Centennial repaid the remaining \$28,000,000 note owed to ACHC.

Capital paid in is \$7,980,000 consisting of 30,000 shares of common stock at \$266 par value per share. Gross paid in and contributed surplus is \$63,292,086. Gross paid in and contributed surplus did not change from the last examination date.

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-four members. The board meets at least four times during each calendar year. At December 31, 2003, the board of directors was comprised of the following sixteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Carter J. Bacot Montclair, NJ	Retired Chairman, Bank of New York
William R. Chaney Clinton, CT	Retired Chairman, Tiffany & Co.
Jill M. Considine New York, NY	Chairman and Chief Executive Officer, Depository Trust & Clearing Corporation
Salvatore R. Curiale Bellerose Village, NY	Senior Executive Vice President, Mutual of America Life Insurance Company
Hugh A. D'Andrade Summit, NJ	Retired Vice Chairman and Chief Administrative Officer, Schering-Plough Corporation
Klaus G. Dorfi Bernardsville, NJ	Chairman of the Board and Chief Executive Officer, Atlantic Mutual Companies
Jarobin Gilbert Jr. New Rochelle, NY	President and Chief Executive Officer, DBSS Group, Inc.
James D. Hammond State College, PA	Dean Emeritus & Wm. Elliot Professor of Insurance, Smeal College of Business Administration Pennsylvania State University
John F. Hennessy, III New York, NY	Chairman and Chief Executive Officer, Syska Hennessy Group, Inc.
Dan F. Huebner Decorah, IA	Retired Vice Chairman, Grumman Corporation
Niels M. Johnsen Colts Neck, NJ	Chairman, Central Gulf Lines, Inc.
Eugene R. McGrath Rye, NY	Chairman, President and Chief Executive Officer, Consolidated Edison Company of New York, Inc.
Michael W. McConnell Brooklyn, NY	Managing Partner, Brown Brothers, Harriman & Company
Kermit C. Smith Madison, NJ	President and Chief Operating Officer, Atlantic Mutual Companies

Name and ResidencePrincipal Business Affiliation

Lloyd G. Waterhouse
Dayton, OH

Chief Executive Officer,
Chairman and President,
The Reynolds & Reynolds Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2003, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Klaus G. Dorfi	Chairman of the Board
Kermit C. Smith	President
Richard J. Hertling	Senior Vice President & Chief Financial Officer
Theodore R. Henke	Senior Vice President & Corporate Counsel
Nancy E. Hahon	Vice President & Corporate Secretary
Thomas P. Gorke	Senior Vice President
Robert G. Himmer	Senior Vice President
David P. Mitchell, Jr.	Senior Vice President
Daniel H. Olmsted	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write business in all fifty states, and the District of Columbia, Puerto Rico, United States Virgin Islands, Canada and the United Kingdom.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
18	Title
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
23	Mortgage guarantee
24	Credit unemployment
25	Financial guaranty
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services
30	Substantially similar kind

In addition, the Company is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including coverages described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Congress, as amended). The Company is also licensed to write special risk insurance pursuant to Section 6302, as well as multiple lines reinsurance pursuant to Section 4102(c) of the New York Insurance Law.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	Premiums Written in New York State as a percentage of <u>United States Premiums Written</u>
2002	\$83,940,966	\$316,292,755	26.54%
2003	\$70,793,743	\$312,590,494	22.65%

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

Direct premium income of the Atlantic Mutual Companies was produced by an agency force consisting of approximately 1,000 agents and 200 brokers and was predominately a commercial lines writer domestically with limited international writings.

The majority of the Company's direct premium writings consist of the following lines of business: inland marine (23.7%), workers' compensation (16.5%), commercial multiple peril (15.9%), ocean marine (13.7%), commercial auto liability (5.3%), auto physical damage (4.37%) and homeowners multiple peril (2.7%). The above lines of business comprised 82.17% of the Company's direct writings for the year 2003.

Subsequent to the examination date, the Atlantic Companies has reduced their total number of agents to 200, eliminated their commercial lines business and limited their geographic area primarily to the east coast and certain parts of the Midwest. Also, ASIC was terminated from the Atlantic Companies pool due to the sale of its common stock and commercial lines renewal rights to OneBeacon Insurance Company. In 2004, the Atlantic Companies closed most of the field offices and are currently operating from the following offices:

Corporate Headquarters

New York, NY

Administrative and National
Recoveries Center

Madison, NJ

Technology & Customer
Service Center

Roanoke, VA

C. ReinsuranceAssumed

In 2003, the Company's assumed premiums represented approximately 37.8% of its gross premium writings for the year. The Company participates in an inter-company pooling agreement and approximately 34.4% of the Company's assumed business comes from its affiliates. The remaining 3.4% assumed reinsurance was from non-affiliated companies, alien insurers, syndicates, pools and associations.

Ceded

The Schedule F data as contained in the Company's filed annual statements was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Atlantic Companies had the following ceded reinsurance program in effect at December 31, 2003:

<u>Type of treaty</u>	<u>Cession</u>
<u>Blanket Casualty</u> One Layer 100% Authorized	85% of \$5,000,000 excess of \$1,000,000, each event.
<u>Workers' Compensation Catastrophe</u> Two layers 100% and 99% Authorized	\$40,000,000 excess of \$10,000,000 per occurrence.

<u>Type of treaty</u>	<u>Cession</u>
<u>Umbrella Quota share</u> 100% Authorized	80% of the first \$10,000,000 of personal and commercial umbrella limits, each loss, accident or occurrence, each policy.
<u>Umbrella Excess</u> 100% Authorized	\$10,000,000 excess of \$10,000,000 each event, each occurrence.
<u>Property Per Risk - Excess of Loss</u> Four Layers 97%, 94%, 90% and 89.5% Authorized	\$47,500,000 excess of \$2,500,000 per risk.
<u>Property Catastrophe Excess of Loss</u> Six Layers 80%, 65%, 75%, 65%, 65%, and 77% Authorized	\$150,000,000 excess of \$20,000,000, any one loss occurrence. 1 st layer is ceded 76% 2 nd layer is ceded 80% 3 rd layer is ceded 90% 4 th -6 th layers are ceded 100%
<u>Property Risk Terrorism</u> Four Layers 62.5%, 61%, 70% and 56% Authorized	\$47,500,000 excess of \$2,500,000 per risk.
<u>Marine Per Risk</u> Two Layers 100% and 100% Authorized	\$14,000,000 excess of \$1,000,000 per risk.
<u>Marine Clash Cover</u> Four Layers 75%, 80%, 82% and 83% Authorized	\$29,000,000 excess of \$1,000,000 per occurrence.
<u>Surety Surplus</u> One layer 90% Authorized	Maximum Cession on any one bond is 84% of \$50,000,000 or \$42,000,000.
<u>Surety Per Principal Excess</u> Four Layers 85%, 85%, 85% and 85% Authorized	\$21,500,000 excess \$3,500,000 any one account.
<u>Stop Loss</u> Whole Account Aggregate 100% Authorized	Maximum Recovery \$50,000,000 any one year and a further maximum of \$100,000,000 over the three year contract 1/01/01-12/31/03.
<u>Jewelers Block</u> 100% Authorized	100% Net Liability Quota Share agreement in respect of UEP on business in force at December 31, 2003.

Type of treatyCessionMarine Quota Share

100% Authorized

100% Net liability Quota Share agreement in respect of UEP on business in force at September 30, 2003 and new and renewal thereafter.

The Atlantic Companies' limits decreased from \$24,000,000 to \$5,000,000 for blanket casualty coverage, the limits increased from \$5,000,000 to \$10,000,000 for umbrella quota share coverage, and the limits decreased from \$15,000,000 to \$10,000,000 for umbrella excess coverage, compared with the prior examination period. The Atlantic Companies' retention increased from \$1,000,000 to \$2,500,000 and the limits decreased from \$49,000,000 to \$47,500,000 for property per risk coverage compared with the prior examination period. The Atlantic Companies' retention increased from \$2,500,000 to \$3,500,000 and its limits increased from \$17,500,000 to \$21,500,000 for surety excess coverage compared with the prior examination. The Atlantic Companies' retention, limits, and percentages of authorized vs. unauthorized remained the same for umbrella excess coverage and the marine per risk coverage compared with the prior examination period.

The Atlantic Companies' percentages of authorized reinsurers decreased from 100% to 85% for marine clash coverage compared with the prior examination period. The percentage of cessions to authorized reinsurers has remained relatively the same for all the other coverage compared with the prior examination period.

The Company is a party to reinsurance treaties that contain downgrade provisions with various aggregate excess of loss contracts with Converium Reinsurance (North America) Inc. ("Converium"). The provisions give the reinsurer the right to require Atlantic Mutual to secure its obligations by either transferring funds and or posting letters of credit, in the event of a downgrade by A.M. Best Company to a rating below A-. In October of 2003, A.M. Best Company downgraded the Atlantic Companies to a B++. As a result of this downgrade, the Atlantic Companies agreed to commute the 1999 accident year only, in

the '99 – '01 contract and Converium agreed to refrain from invoking its right to require securitization of the obligations, until at least January 1, 2005. The Atlantic Companies agreed to consider commuting the remaining covers in exchange for Converium's additional consideration. However, the Atlantic Companies also had an option to continue the contracts in exchange for an additional fee. Converium added two further downgrade provisions to this agreement; the first provision gave them the unilateral right to commute if the Atlantic Companies failed to maintain a B+ rating during the twelve months commencing January 1, 2004-2005; the second provision gave Converium the unilateral right to commute all remaining contracts on January 1, 2005, in the event the Atlantic Companies failed to maintain an AM Best rating of B++.

Subsequent to the examination date, the Atlantic Companies commuted the 1999 accident year only, on its 1999 three-year option whole account aggregate excess of loss contract with Converium on January 1, 2004. As consideration for the commutation of the 1999 accident year, the Atlantic Companies paid Converium \$9,132,970 by crediting the "Funds withheld" account balance. Effective January 1, 2005, the remaining reinsurance contracts made with Converium were commuted.

As part of the Atlantic Companies' arrangements to divest itself of marine business, 100 percent of the Atlantic Companies' renewal marine business rights were ceded to Travelers as of September 30, 2003.

In addition to its treaty reinsurance program, the Company also obtained facultative reinsurance coverage. The Company obtains facultative reinsurance for policies with limits above a certain amount, for certain types of risks/programs. Property exposures in excess of treaty limits were covered by an automatic facultative arrangement as were umbrella limits in excess of either \$5M or \$10M depending on the year. Most facultative reinsurance is under the control of the business unit placing the facultative reinsurance and purchased for either capacity or reinsurer expertise. Facultative cessions represented less than 10% of the Company's total premiums ceded in 2003.

Loss Portfolio Transfer

Effective December 31, 2002, the Atlantic Companies entered into an aggregate excess of loss reinsurance agreement (loss portfolio transfer) with Partner Reinsurance Company Ltd. ("Partner Re"), transferring \$153,750,000 of retroactive loss reserves incurred prior to 2002. The Company transferred \$153,750,000 of liabilities and paid consideration of \$102,375,000 and a loss portfolio transfer gain of \$51,375,000. The Atlantic Companies have accounted for this transaction properly pursuant to the provisions of Statement of Statutory Accounting Principles ("SSAP") No. 62.

Subsequent to the examination date, the Company commuted the excess of loss reinsurance agreement with Partner Re effective July 1, 2004 and realized a loss of \$15,827,160. Also, as a result of commutation, a profit commission receivable of \$7,875,000, loss portfolio contra liability of \$51,250,000, funds held of \$43,297,840 and loss portfolio transfer gain of \$17,125,000 was removed in the Company's September 30, 2004 quarterly statement.

The Partner Re contract contained two sets of triggers. The first trigger is known as the "Conversion to Funds Transferred" trigger and the second trigger is known as the "Special Commutation" trigger. The first trigger gave Partner Re the right to require transfer of the "Funds withheld" balances, by wire, upon the failure to maintain an A.M. Best Company rating of A- or better. The second trigger gave Partner Re the unilateral right to commute the agreement upon the occurrence of one or more specified events.

When the Atlantic Companies were downgraded by A.M. Best Company in October of 2003 from an A- to B++, the Company notified Partner Re of the downgrade. The Atlantic Companies entered into an arrangement with Partner Re, whereby they agreed to waive their right to require the transfer of funds for four months. When the four month waiver period expired the Atlantic Companies transferred the funds and established a Regulation 114 Trust. In May 2004, Partner Re advised the Atlantic Companies

that they intended to exercise their right to commute based on the special commutation event of the Standard and Poor's downgrade to BB+. The commutation was effective July 1, 2004.

Unauthorized Reinsurance

The trust agreements and letters of credit obtained by the Atlantic Companies in order to take credit for cessions made to unauthorized reinsurers were reviewed for compliance with Department Regulations 114 and 133, respectively. No exceptions were noted.

Inter-Company Pooling Agreement

Atlantic Mutual and its wholly owned subsidiaries, Centennial, ASIC and Atlantic Lloyds Insurance Company of Texas ("ALIC") have the following reinsurance and inter-company pooling agreements in effect:

- ALIC cedes 100% of its underwriting results to Centennial under a reinsurance agreement.
- Atlantic Mutual, Centennial and ASIC participate in an inter-company pooling agreement covering all lines of business and share in the underwriting results according to the pooling agreement percentages of 75%, 23%, and 2%, respectively. Schedule F is prepared on the basis of the pooling agreement and any "Provision for reinsurance" or write-off.

Subsequent to the examination period, ASIC has been removed from the Atlantic Mutual Companies' inter-company pooling agreement retroactive to January 1, 2004 and Atlantic Mutual's inter-company tax allocation agreement effective March 31, 2004. The new inter-company pooling percentages are 75% and 25% for Atlantic Mutual and Centennial, respectively.

D. Holding Company System

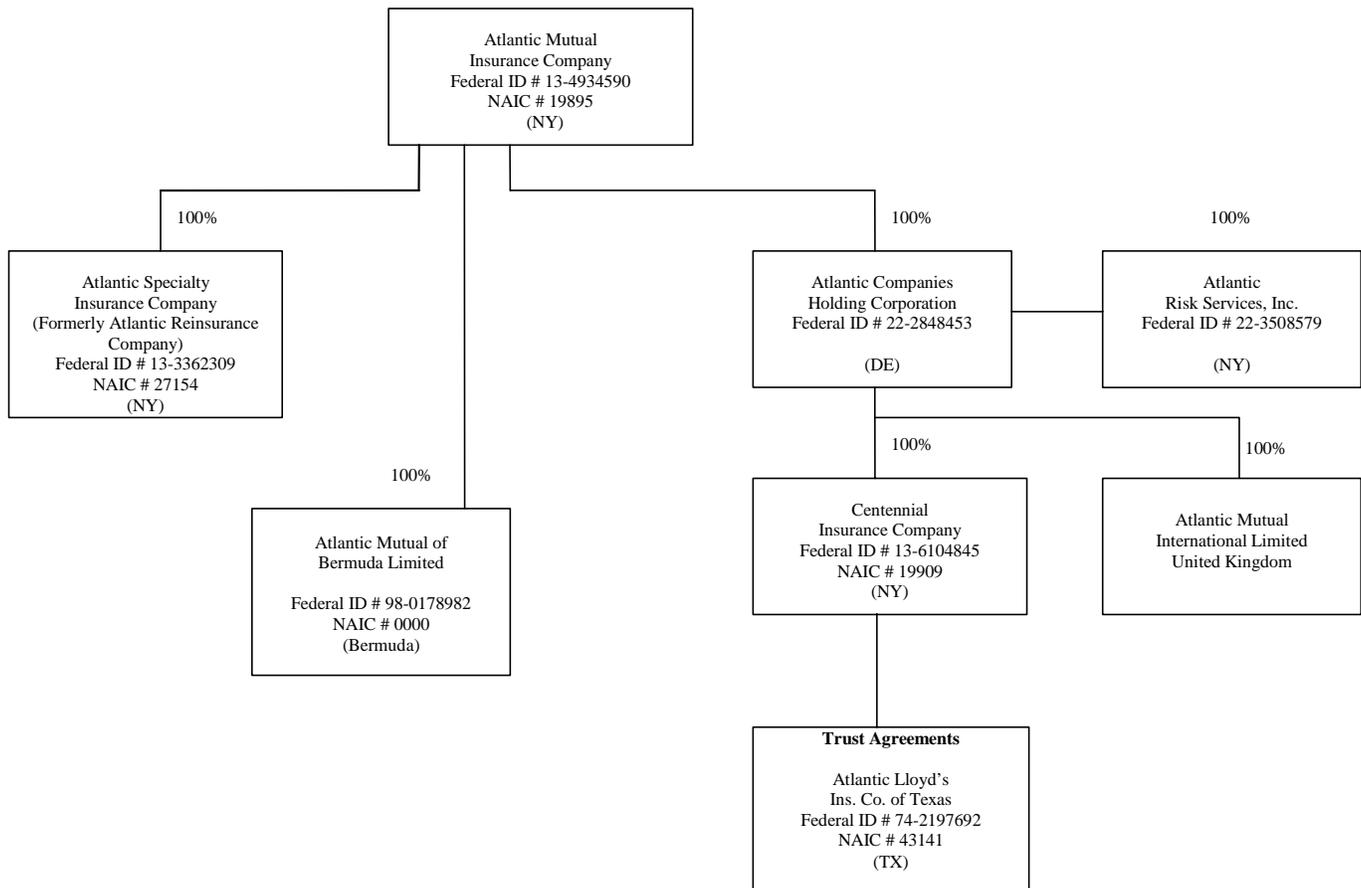
Atlantic Mutual is a New York domestic insurer. Pursuant to Section 1502(a)(1) of the New York Insurance Law, if the ultimate parent is an authorized insurer, then all companies in the group are exempt

from holding company matters and filings. Therefore, the Company is not required to file pursuant to Article 15 of the New York State Insurance Law and Department Regulation 52.

Pursuant to Circular Letter 2001-17, dated August 13, 2001, every domestic insurer that is exempt from the provisions of Article 15 of the New York Insurance Law is hereby directed, pursuant to Section 308 of the New York Insurance Law, to furnish this Department by September 1, 2001 a copy of the latest insurance holding company system annual registration statement (NAIC Form B) filed by it.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Circular Letter 2001-17.

The following is chart of the holding company system at December 31, 2003:



At December 31, 2003, the Company was party to the following agreements with other members of its holding company system:

(1) Tax Allocation Agreement

The Company participates in a tax allocation agreement with its parent and its subsidiaries, Atlantic Mutual, ASIC, ALIC, Atlantic Risk Services Inc., ACHC, and Atlantic Mutual of Bermuda Limited. A formal agreement was submitted to the Department, pursuant to the Department's Circular Letter No.33 (1979), describing the manner in which the federal income tax for all entities is allocated to each entity. The agreement was effective April 11, 1980 and was amended numerous times to add various participants.

(2) Service Agreement

The Company entered into a service agreement with Centennial Holding Corporation (now known as Atlantic Companies Holding Corporation or ACHC) effective December 1, 1988. Pursuant to the terms of the agreement, the Company provides various services such as accounting, tax preparation and auditing to ACHC.

(3) Service Agreement

The Company entered into a service agreement with ALIC effective January 1, 1982. Pursuant to the terms of the agreement, the Company provides various services such as underwriting advice, policy issuance, billing services, auditing and record keeping.

E. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written 2003 to surplus as regards policyholders	12.6 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	81%
Premiums in course of collection to surplus as regards policyholders	13%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the two-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss		
adjustment expenses incurred	\$242,921,743	81.93%
Other underwriting expenses incurred	117,651,512	39.68
LAD\CLAD program fees	1,454,110	0.49
Other underwriting income earned	(100,258)	(0.03)
Net underwriting loss	<u>(65,445,800)</u>	<u>(22.07)</u>
Premiums earned	<u>\$296,481,307</u>	<u>100.00%</u>

G. Subsequent Events

Transfers of Receivables Reported as Sales

The Company's trade receivables purchase and sale agreement with The Bank of New York ("BONY") expired on September 27, 2004 and have not been renewed. As a result of the expiration, the Company recognized a surplus reduction of \$1,483,482 due to the increase in overdue premium receivables.

Rating Downgraded By Financial Rating Associations

The Company had their financial rating downgraded by the following financial rating associations:

- a. Standard and Poor's financial strength rating of BB+ from BBB- on April 16, 2004
- b. A.M. Best financial strength rating of B+ very good, from B++, very good on June 29, 02004.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

<u>Assets</u>	<u>Examination</u>		<u>Company</u>		Surplus Increase <u>(Decrease)</u>
	<u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	
Bonds	\$344,106,070	\$	\$344,106,070	\$344,106,070	
Common stocks (stocks)	6,673,764		6,673,764	6,673,764	
Cash and short-term investments	12,708,724		12,708,724	12,708,724	
Investment income due and accrued	3,458,045		3,458,045	3,458,045	
Premiums and agents' balances in course of collection	18,728,359	1,255,709	17,472,650	17,472,650	
Premiums, agents' balances and installments booked but deferred and not yet due	44,891,074	236,226	44,654,848	44,654,848	
Accrued retrospective premiums	6,859,060	685,860	6,173,200	6,173,200	
Funds held by or deposited with reinsured companies	12,110,986		12,110,986	12,110,986	
Amounts billed and receivable under high deductible policies	7,245,000		7,245,000	7,245,000	
Federal and foreign income taxes recoverable	3,888,735		3,888,735	3,888,735	
Net deferred tax asset	24,793,000	16,641,000	8,152,000	8,152,000	
Guaranty funds receivable or on deposit	1,513,877		1,513,877	1,513,877	
Health care (\$0) and other amounts receivable	1,455,788	22,768	1,433,020	1,433,020	
Other assets non-admitted	3,478,605	3,478,605			
Aggregate write-ins for other than invested assets	<u>5,889,308</u>	<u>67,046</u>	<u>5,822,262</u>	<u>5,822,262</u>	
Total Assets	<u>\$497,800,395</u>	<u>\$22,387,214</u>	<u>\$475,413,181</u>	<u>\$475,413,181</u>	

<u>Liabilities, Surplus and Other Funds</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$242,397,212	\$211,347,212	(31,050,000)
Commissions payable, contingent commissions and other similar charges	4,485,000	4,485,000	
Other expenses (excluding taxes, licenses and fees)	7,777,217	7,777,217	
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,800,693	2,800,693	
Unearned premiums	77,944,652	77,944,652	
Policyholders (dividends declared and unpaid)	1,070,521	1,070,521	
Ceded reinsurance premiums payable (net of ceding commissions)	5,548,538	5,548,538	
Funds held by company under reinsurance treaties	66,802,679	66,802,679	
Amounts withheld or retained by company for account of others	2,767,795	2,767,795	
Remittances and items not allocated	323,227	323,227	
Provision for reinsurance	10,117,039	4,514,929	(5,602,110)
Net adjustments in assets and liabilities due to foreign exchange rates	143,737	143,737	
Drafts outstanding	541	541	
Payable to parent, subsidiaries and affiliates	1,280,694	1,280,694	
Aggregate write-ins for liabilities	<u>(46,531,533)</u>	<u>(46,531,533)</u>	
 Total liabilities	 <u>\$376,928,012</u>	 <u>\$340,275,902</u>	 (36,652,110)
 <u>Surplus and Other Funds</u>			
Aggregate write-ins for special surplus funds	\$15,755,000	\$15,755,000	
Common capital stock	7,980,000	7,980,000	
Gross paid in and contributed surplus	63,292,086	63,292,086	
Unassigned funds (surplus)	<u>11,458,083</u>	<u>48,110,193</u>	(36,652,110)
 Surplus as regards policyholders	 <u>\$98,485,169</u>	 <u>\$135,137,279</u>	 <u>(36,652,110)</u>
 Total liabilities, surplus and other funds	 <u>\$475,413,181</u>	 <u>\$475,413,181</u>	

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2003. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2002 through 2003 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2004. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$52,098,820 during the two-year examination period January 1, 2002 through December 31, 2003, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$296,481,307
Deductions:		
Losses and loss adjustment expenses incurred	\$273,971,743	
Other underwriting expenses incurred	117,651,512	
Aggregate write-ins for underwriting deductions	<u>1,353,852</u>	
Total underwriting deductions		<u>392,977,107</u>
Net underwriting gain or (loss)		\$(96,495,800)

Investment Income

Net investment income earned	\$28,269,217	
Net realized capital gain	<u>13,574,544</u>	
Net investment gain or (loss)		41,843,761

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(1,031,277)	
Finance and service charges not included in premiums	301,030	
Aggregate write-ins for miscellaneous income	<u>13,806,156</u>	
Total other income		<u>13,075,909</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$(41,576,130)
Dividends to policyholders		<u>4,541,782</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(46,117,912)
Federal and foreign income taxes incurred		<u>(1,661,661)</u>
Net Income		<u>\$(44,456,251)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2001			\$150,583,989
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$44,456,251	
Net unrealized capital gains or (losses)		3,070,979	
Change in net unrealized foreign exchange capital gain	\$126,786		
Change in net deferred income tax	2,258,000		
Change in non-admitted assets		13,984,839	
Change in provision for reinsurance		7,695,959	
Cumulative effect of changes in accounting principles	19,834,000		
Dividends to stockholders		500,000	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>4,609,578</u>	
Total gains and losses	<u>\$22,218,786</u>	<u>\$74,317,606</u>	
Net increase (decrease) in surplus as regards policyholders			<u>(52,098,820)</u>
Surplus as regards policyholders per report on examination as of December 31, 2003			<u>\$98,482,169</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$242,397,212 is \$31,050,000 more than the \$211,347,212 reported by the Company as of December 31, 2003. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. PROVISION FOR REINSURANCE

The examination liability for the captioned item of \$10,117,039 is \$5,602,110 more than the \$4,514,929 reported by the Company as of December 31, 2003.

The examination change represents an additional Schedule F Penalty as a result of the additional ceded IBNR pursuant to the Department's actuarial analysis as of December 31, 2003

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

A market conduct investigation consisting of an underwriting and rating review of the Company's commercial lines of business was conducted for policies in force as of June 30, 2002. A review was also performed to determine compliance with Section 3426 of the New York Insurance Law. Based on the investigation, it was determined that the Group had violated Article 34 of the New York Insurance Law. The Group agreed that the violations had occurred and a penalty of \$25,000 was imposed.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

ITEM

PAGE NO.

A Accounts and Records

It was recommended that the Company regularly adjust its unallocated accounts that each general ledger account displays its actual outstanding account at year-end.

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The Company has complied with this recommendation, by developing procedures to facilitate analyzing each general ledger account on a regular basis so that each account displays its actual outstanding amount.

Appointment No 22151

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Marc Bruckstein

as proper person to examine into the affairs of the

CENTENNIAL INSURANCE COMPANY

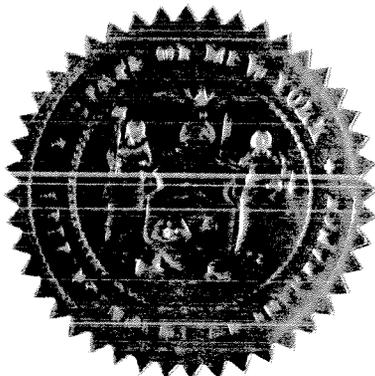
and to make a report to me in writing of the condition of the said

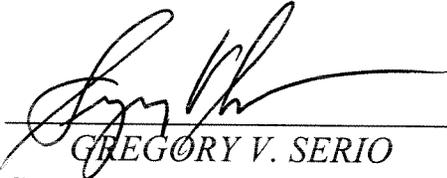
Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 19th day of February, 2004





GREGORY V. SERIO
Superintendent of Insurance